

## **Supporting Statement for the Domestic Finance Company Report of Consolidated Assets and Liabilities (FR 2248; OMB No. 7100-0005)**

### **Summary**

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, with revision, the Domestic Finance Company Report of Consolidated Assets and Liabilities (FR 2248; OMB No. 7100-0005). The FR 2248 is a voluntary report, collected monthly as of the last business day of the month from a stratified sample of finance companies. Each monthly report collects balance sheet data on major categories of consumer and business credit receivables and on major short-term liabilities. For quarter-end months (March, June, September, and December), additional asset and liability items are collected to provide a full balance sheet. The supplemental section collects data on asset-backed securities. These data are used to construct universe estimates of finance company holdings, which are published in the monthly statistical releases Finance Companies (G.20) and Consumer Credit (G.19), in the quarterly statistical release Flow of Funds Accounts of the United States (Z.1), and in the *Federal Reserve Bulletin* (Tables 1.51, 1.52, and 1.55). A copy of the draft reporting form and instructions is provided in attachment I.

The Board staff proposes three changes to the report. First, because the number of finance companies participating in the monthly survey has declined, the staff proposes to reduce the authorized panel size from 100 finance companies to 80 finance companies. Second, the staff proposes to add four questions about the breakdown of 1-4 family real estate loans. These questions would be answered only for quarter-end months. Third, the staff proposes to add a special addendum section to the report, which would on occasion include additional questions pertaining to financial topics of interest. General approval is sought to make these inquiries as needed, up to twice a year. To help ease the reporting burden, these addendum questions would be sent in advance to the respondents. The response time for the addendum questions would be limited to an average of 10 minutes. The staff estimates that the proposed changes would, on net, lower the reporting burden by approximately 7 percent.

### **Background**

The Federal Reserve has collected consumer credit data from finance companies on a regular basis since the mid-1940s. In 1955, the Federal Reserve conducted its first universe survey of finance companies, including business finance companies. In that survey, information was collected on major assets and liabilities, with an emphasis on receivables. Using data from that first universe survey, the Board staff developed a monthly sample survey. Two sample panels were drawn from companies reporting in that universe survey, one representing consumer finance companies (which mainly provided small cash loans to individuals) and the other representing sales finance companies (which mainly purchased credit contracts generated in the sale of durable consumer goods). Companies in each sample panel were asked to supply the Federal Reserve with monthly data on their major

consumer credit receivables.

To benchmark the monthly sample series, the Federal Reserve continued to conduct the universe finance company survey at five-year intervals. Then, in 1980, this quinquennial survey was changed from a universe to a sample survey.

In 1970, the Federal Reserve abandoned the distinction between consumer and sales finance companies, owing to widespread diversification within the finance company industry. At that time, a single new reporting form was introduced to cover all major types of lending (consumer, sales, and business financing) and a new sample of monthly reporters was selected based on the total receivables reported on the 1965 quinquennial survey. This sample provided the basis for the monthly survey until 1983 when a new sample was drawn from the respondents to the 1980 quinquennial survey. The sample has been updated subsequently on the basis of the 1985 and 1990 quinquennial surveys, respectively.

Since 1970, numerous other changes have been made to the reporting form in order to capture information on new types of activities in which finance companies were engaging as well as to eliminate data items no longer needed by the Federal Reserve. Major changes made in 1987 include the elimination of extensions data and the addition of a supplement on securitized assets.

Revisions were made to the reporting form in 1995 that resulted in a net reduction of reporting burden of 6.1 percent. The revisions included consolidating items, adding new items, reorganizing the report layout, and reducing the authorized panel size from 142 finance companies to 120 finance companies. In 1999, the authorized panel size was trimmed further to 100 companies, which reduced the burden by a further 16 percent.

## **Justification**

At the end of 2001, finance companies owned 14 percent of all consumer credit and managed an additional 10 percent of consumer credit in the form of securitized pools; this made them the second largest provider of consumer credit. A large portion of personal consumption expenditures on durable goods is acquired with the use of credit, as are increasing portions of nondurable consumption goods and consumption services. Because consumption is the largest single component of gross domestic product, the Federal Reserve has a need to monitor consumer credit as it makes decisions about monetary policy.

Finance companies provide a significant share of short- and intermediate-term lending to businesses. Business investment, both for fixed capital and inventory, is one of the more cyclically sensitive components of gross domestic product (GDP). Because of the significant effect monetary policy can have on business investment, in part via the availability of credit, monitoring the sources of funding to businesses is important for the implementation of monetary policy. The Federal Reserve has no other information collection that supplies the data obtained on the FR 2248.

## **Description of Information Collection**

### **Reporting Panel**

The reporting panel is drawn from the sample of finance companies that responded to the 2000 quinquennial survey. In recent months, just over 50 finance companies have voluntarily filed the report. Finance company assets are concentrated among a relatively small number of firms, many of which are survey reporters. Using information from the 2000 quinquennial Finance Company Survey, the staff estimates that the reporters covered 75 percent of the universe of finance company assets as of the end of last year.

The current authorized size of the FR 2248 reporting panel is 100 finance companies. The staff proposes reducing the authorized size to 80 finance companies. The number of respondents has trended down over time, largely because of industry consolidation. Over the past few years, the maximum number of respondents in any month was about 60. While the staff plans to continue to make efforts to increase the number of reporters, 80 respondents is probably about the best that can be expected. Attachment II shows the standard errors associated with the current sample size and the improvement associated with increasing the sample to 80 finance companies.

### **Frequency**

In order for monetary policymakers to understand household spending data and to forecast future patterns of spending, the policymakers must know how households are financing their purchases. As a result, the Federal Reserve needs high-quality, timely data on consumer borrowing. During periods of macroeconomic stability, policymakers may not need monthly consumer credit information. However, in periods of rapidly changing economic conditions, it is important to have a high-frequency data series on household borrowing. Therefore, Board staff recommends retaining the monthly frequency, with some data items continuing to be reported only for the quarter-end months. Monitoring the sources of funding to businesses less frequently would provide the data two months – or at least one Federal Open Market Committee (FOMC) cycle – later than it is currently received.

### **Current Data Items**

The FR 2248 collects information on amounts outstanding in major categories of consumer and business credit held by finance companies and on major short-term liabilities of the finance companies. For quarter-end months (March, June, September, and December), the report also collects information on other assets and liabilities outstanding as well as information on capital accounts in order to provide a full balance sheet.<sup>1</sup> In addition, the supplemental section collects data about assets that have been pooled by finance companies and sold to third parties, which then issue securities based on those assets. The

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1. All of this information is collected using a single version of the reporting form. Items to be reported only for the quarter-end months are so noted.

supplemental section is organized in the same four categories of credit (consumer, real estate, business, and lease related).

### **Proposed Revisions**

In addition to the data collected from the usual month-end and quarter-end questions, the Board staff occasionally has a need for other information from finance companies. The staff proposes to add four new questions to the reporting form dividing 1-4 family real estate loans into closed-end loans (with further division into those secured by first liens and those secured by second liens) and open-end, revolving loans. These data items and their definitions parallel items on schedule RC-C, "Loans and Lease Financing Receivables" Part I. "Loans and Leases" of the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031 & 041; OMB No.7100-0036). This information would be reported only for quarter-end months.

The Board staff also proposes to add a special addendum section that would include additional questions to collect other information no more than twice a year. The questions would be limited to financial information that would be readily available on respondents' financial statements. The respondents would provide quantitative answers to approximately five questions in the addendum section that would take, on average, ten minutes to complete. The questions would vary as events develop in the financial markets; however, the questions on a given addendum would only cover one topic. For example, they may want to ask about the proportion of consumer loans that are considered to be subprime. The Federal Reserve has no other source of timely information on subjects of immediate concern.

### **Time Schedule for Information Collection and Publication**

Most respondents submit their FR 2248 data monthly to the Federal Reserve Banks; approximately ten respondents have chosen to file directly with the Board. Respondents submit quarterly data to the Federal Reserve Banks for quarter-end months only. To help ease the reporting burden on respondents, the semiannual special addendum questions would be sent to the respondents approximately three weeks in advance of the report as-of date. This advance notice would allow the respondents to submit the addendum data along with their regular monthly data. The data are then edited and transmitted to the Board for central processing. All data are due at the Board eighteen days after the end of the month. Aggregate data are published in the Board's monthly statistical releases Consumer Credit (G.19) and Finance Companies (G.20), in the quarterly statistical release Flow of Funds Accounts of the United States (Z.1), and in the *Federal Reserve Bulletin* (Tables 1.51, 1.52, and 1.55).

### **Legal Status**

The Board's Legal Division has determined that the FR 2248 is authorized by law (12 U.S.C. §225(a)) and is voluntary. Individual respondent data are confidential under section (b)(4) of the Freedom of Information Act (5 U.S.C. §552).



### Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System.

### Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

### Estimate of Cost to the Federal Reserve System

The estimated cost to the Federal Reserve System for collecting and processing this report will be obtained.

### Estimate of Respondent Burden

The following table shows estimates of the burden imposed by the Federal Reserve System on the domestic finance companies that participate in the FR 2248. The proposed changes would, on net, decrease the burden by 28 hours, from 380 hours to 352 hours. First, the proposed reduction in the authorized panel size would reduce the estimated annual burden by 76 hours. Second, the proposed addition of quarter-end questions and an addendum section would increase the estimated annual burden by 48 hours. The annual burden for the FR 2248 represents less than 1 percent of the total Federal Reserve System paperwork burden for all reports.

	Number of respondents	Annual frequency	Estimated average hours per response	Estimated annual burden hours
<i>Current</i>				
FR 2248 monthly	100	8	18 minutes	240
FR 2248 quarterly	100	4	21 minutes	140
Total				380
<i>Proposed</i>				
FR 2248 monthly	80	8	18 minutes	192
FR 2248 quarterly	80	4	25 minutes	133
FR 2248 addendum	80	2	10 minutes	27
Total				352
<i>Change</i>				(28)

Based on a rate of \$20 per hour, the current annual cost to the public of the survey is estimated to be \$7,600. The annual cost to the public of the proposed survey is estimated to decrease by \$560, to \$7,040.

**Attachment I**

**FR 2248  
Domestic Finance Company Report  
of Consolidated Assets and Liabilities**

**Forms and Instructions**



**Attachment II**  
**Standard Errors of Finance Company Survey Items**  
**(Billions of Dollars)**

	December 2001 Estimate	Standard Error (n=51)	Standard Error (n=80)
<b>Total</b>	1256.9	47.7	21.8
<u><b>Consumer</b></u>	517.4	3.8	2.5
Motor vehicle loans	174.1	9.1	3.5
Motor vehicle leases	103.5	1.9	0.6
Revolving	31.5	.3	0.1
Other	31.1	2.2	2.2
Securitized assets			
Motor vehicle loans	131.7	.4	.1
Motor vehicle leases	6.8	.0+ <sup>2</sup>	.0+
Revolving	24.3	.0+	.0+
Other	14.3	.0+	.0+
<u><b>Real estate</b></u>	211.6	22.8	6.7
One-to-four family	142.5	12.0	3.7
Other	41.2	0.7	0.2
Securitized assets			
One-to-four family	22.2	.0+	.0+
Other	5.7	.0+	.0+
<u><b>Business</b></u>	527.9	27.4	17.6
Motor vehicle	54.0	1.9	.6
Retail loans	16.1	0.4	.1
Wholesale loans	20.3	1.3	.4
Leases	17.6	1.3	.4
Equipment	289.4	15.5	7.6
Loans	77.8	4.5	1.3
Leases	211.6	13.2	4.0
Other business	103.5	7.8	3.9
Securitized assets			
Motor vehicles	50.1	.0+	.0+
Retail loans	5.1	.0+	.0+
Wholesale loans	42.5	.0+	.0+
Leases	2.5	.0+	.0+
Equipment	23.2	1.5	.4
Loans	16.4	1.3	.4
Leases	6.8	0.8	.2
Other	7.7	2.1	.6

2. A standard error is reported as .0+ if any of the following occurs: a) every company reported \$0 in both periods, b) all companies under \$1 billion reported \$0 and just one company above \$1 billion reported a nonzero value, c) non-zero values are reported only by companies above \$1 billion or d) just one company under \$1 billion reported a non-zero value and companies above \$1 billion reported non-zero values.

The .0+ notation is used to indicate the uncertainty of actually claiming a zero variance from this data set.